



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE MAFIKENG LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Mafikeng Local Municipality set out on pages [XX] to [XX], which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended and the notes, comprising of a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Property, Plant and Equipment

4. The municipality did not comply with the requirements of paragraphs 38, 39, 53, 61, 71 and 73 of the SA Standard of GRAP, GRAP 17, *Property, plant and equipment* as the municipality has not yet completed its process of unbundling property, plant and equipment. I was unable to practicably quantify the extent of the misstatements. In addition I was unable to obtain sufficient appropriate audit evidence for other changes and movements identified and I could not physically verify that all movable assets were included in the asset register. I was unable to confirm property, plant and equipment by alternative means. Consequently I was unable to determine whether any adjustment relating to property, plant and equipment of R446 870 064 (2012: R455 650 846) disclosed in the statement of financial position and note 3 to the financial statements and the related depreciation and amortisation expense of R27 764 412 (2012: R26 182 428) disclosed in the statement of financial performance and note 31 to the financial statements were necessary.
5. The district municipality is responsible for the powers and functions relating to water and sanitation services for the entire district and is the water service authority in terms of the Water Services Act of South Africa, 1998 (Act No. 108 of 1998). The district municipality has an agreement with the local municipality to perform these functions on its behalf. The municipality incorrectly accounted for the infrastructure assets from the provision of water and sanitation services on behalf of the district municipality. Consequently I was unable to determine whether



any adjustments relating to property, plant and equipment in the financial statements were necessary.

Trade and other receivables

6. SA Standard of GRAP, GRAP 104, *Financial instruments*, require that an entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. The municipality did not correctly assess receivables from exchange transactions, individually or by category, for any indication that these assets may be impaired. I was unable to confirm this impairment by alternative means. In addition I was unable to obtain sufficient appropriate evidence to support debtor balances. Consequently, I was unable to determine whether any adjustments relating to trade and other receivables of R92 576 514 (2012: R46 959 242) and the related allowance for impairment of R466 329 082 (2012: R450 904 540) disclosed in the statement of financial position and note 9, 10 and 11 to the financial statements and the debt impairment expense of R20 390 554 (2012: R9 676 324) disclosed in the statement of financial performance and note 29 was necessary.

Trade and other payables

7. I was unable to obtain sufficient appropriate audit evidence regarding sundry creditors as the municipality did not have an adequate document management system. I was unable to confirm the sundry creditors by alternative means. Consequently I was unable to determine whether any adjustment relating to sundry creditors of R8 520 662 included in trade and other payables disclosed in statement of financial position and note 17 to the financial statements was necessary.
8. In the prior year, I was unable to obtain sufficient appropriate audit evidence regarding unallocated receipts and accrued leave pay due to lack of proper accounting records. I was unable to confirm these trade and other payables by alternative means. Consequently, I was unable to determine whether any adjustment relating to the corresponding figures for unallocated receipts of R4 260 280 and accrued leave pay of R14 674 860 included in trade and other payables disclosed in the statement of financial position and note 17 to the annual financial statements was necessary.

Cash and cash equivalents

9. I was unable to obtain sufficient appropriate audit evidence regarding the bank overdraft as the municipality could not provide proper substantiating records for reconciling items included in the bank reconciliation. I was unable to confirm this balance by alternative means. Consequently I was unable to determine whether any adjustment relating to the bank overdraft of R11 586 341 (2012: R29 992 590) as disclosed in statement of financial position and note 12 to the financial statements was necessary.

Housing development fund

10. I was unable to obtain sufficient appropriate audit evidence regarding the housing development fund as the municipality did not have an adequate document management system to support the housing development fund. I was unable to confirm the housing development fund by alternative means. Consequently I was unable to determine whether any adjustment relating to the housing development fund of R3 470 046 (2012: R3 470 046) disclosed in the statement of financial position and note 46 to the financial statements was necessary.

Accumulated surplus

11. I was unable to obtain sufficient appropriate audit evidence that management has properly managed and accounted for accumulated surplus for the current and prior year due to the lack of proper substantiating accounting records. I was unable to confirm the accumulated surplus by alternative means. Consequently, I was unable to determine whether any adjustments to

accumulated surplus of R321 996 659 (2012: R303 829 336) in the financial statements was necessary

Revenue

12. I was unable to obtain sufficient appropriate audit evidence that management has properly levied and accounted for service charges for the current year. I was unable to confirm the service charges by alternative means. Consequently, I was unable to determine whether any adjustment to service charges of R106 523 941 (2012: R91 651 726) disclosed in the statement of financial performance and note 22 to the financial statements was necessary.
13. In the prior year, I was unable to obtain sufficient appropriate audit evidence that management has properly managed and accounted for licences and permits, fines, rental of facilities and other sundry revenue. I was unable to confirm these classes of transactions by alternative means. Consequently, I was unable to determine whether any adjustment to these classes of transactions of R11 759 853 disclosed in the statement of financial performance were necessary.

Cash flow statement

14. As a result of the misstatements identified in the financial statements as set out in this report, I was unable to practicably quantify the misstatements in the cash flow statement and notes thereto. Consequently, I was unable to determine whether any adjustment relating to the cash flow statement and notes thereto was necessary.

Irregular expenditure

15. Section 125(2)(d)(i) of the MFMA requires the municipality to disclose particulars of irregular expenditure. The municipality made payments in contravention of the supply chain management requirements which were not included in irregular expenditure disclosed in note 43, resulting in irregular expenditure being understated by R2 782 173 (2012: R1 016 646). In addition, I was unable to obtain sufficient appropriate audit evidence for the irregular expenditure disclosed in the prior year. I was unable to confirm the irregular expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments to irregular expenditure of R93 587 650 (2012: R75 288 561) disclosed in note 43 to the in the financial statements was necessary.

Prior period errors

16. I was unable to obtain sufficient appropriate audit evidence that all the prior period errors were appropriately corrected and disclosed as required by SA Standard of GRAP, GRAP 3, *Accounting policies, changes in accounting estimates and errors*. I was unable to confirm the adjustments relating to the prior period error by alternative means. Consequently I was unable to determine whether any adjustment to prior period errors disclosed in note 48 or any other account balances, transactions and disclosures affected by these prior period errors to the financial statements were necessary.

Disclaimer of opinion

17. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

Emphasis of matters

18. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unauthorised, Fruitless and Wasteful expenditure

19. As disclosed in note 41 to the financial statements, unauthorised expenditure of R111 809 414 in respect of prior years has not yet been dealt with in accordance with section 32 of the



MFMA.

20. As disclosed in note 42 to the financial statements, fruitless and wasteful expenditure of R97 087 was incurred in the current year and fruitless and wasteful expenditure in respect of prior years of R5 270 237 has not yet been dealt with in accordance with section 32 of the MFMA.

Material under spending of conditional grants

21. As disclosed in note 15 the municipality has materially underspent the conditional grants by R42 003 921. As a consequence, this contributed to the municipality not achieving its predetermined objectives.

Additional matter

22. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

23. The supplementary information set out on pages [XX] to [XX] does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

24. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

25. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages [XX] to [XX] of the annual report.
26. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development priorities or objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information (FMPPI).
27. The reliability of the information in respect of the selected development priorities and objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
28. The material findings are as follows:

Usefulness of information

29. Section 25(2) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) determines that an integrated development plan adopted by a municipal council may be amended in terms of section 34 and remains in force until an integrated development plan is adopted by the next elected council. Therefore, if the integrated development plan is changed, in-year this process has to take place in accordance with the process as prescribed per section 34 of the MSA. A total of 100% of indicators and targets reported in the annual performance report were changed, in-year without following the process as prescribed in section 34 of the MSA and without adoption by the council of the municipality. This was due to planned performance indicators and related targets not being reported in the annual performance report.



Reliability of information

30. The FMPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to the development priorities of "Basic Service delivery" and "Local Economic Development". This was due to limitations placed on the scope of my work due to the absence of information systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The entity did not establish a performance management system to enable us to verify the completeness of the reported performance information.

Compliance with laws and regulations

31. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows

Strategic planning and performance management

32. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the MFMA.
33. The annual performance report for the year under review does not include the performance of each external service provider and a comparison of the performance with set targets and a comparison with the previous financial year and measures taken to improve performance, as required by section 46 (1) (a) (b) (c) of the Municipal Systems Act. (MSA)
34. The municipality did not establish and implement a performance management system, as required by section 38(a) of the MSA.
35. The internal audit unit did not audit the performance measurements on a continuous basis and submitted quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal planning and performance management regulation 14(1)(c) (MPPMR).
36. A performance audit committee was not in place and the audit committee was not used to fulfil the performance audit committee function, as required by MPPMR 14(2) (a).
37. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by MPPMR 14(4)(a)(ii).

Human resource management

38. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor measure and evaluate performance of staff in contravention of section 67(d) of the MSA.

Annual report and Annual financial statements

39. The annual report for the year under review does not include an assessment by the accounting officer of any arrears on municipal taxes and service charges, as required by section 121(3)(e) of the MFMA.
40. The annual report for the year under review does not include the report of the audit committee as required by section 121(3)(j) of the MFMA.
41. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected



and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

Internal audit

42. An internal audit unit was not established throughout the year, as required by section 165(1) of the MFMA.

Audit committee

43. An audit committee was not in place, as required by section 166(1) of the MFMA.

Asset management

44. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

Revenue management

45. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
46. An adequate management, accounting and information system which accounts for revenue debtors and receipts of revenue was not in place, as required by section 64(2)(e) of the MFMA.

Expenditure management

47. The accounting officer did not take reasonable steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
48. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

Procurement and contract management

49. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by Supply Chain Management (SCM) regulation 13(c).
50. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulations 17(a) & (c).
51. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
52. Sufficient appropriate audit evidence could not be obtained that contract and quotations were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order as required by SCM regulation 43.
53. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) & 22(2).
54. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).
55. Awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5) (b).
56. Awards were made to providers whose directors are in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44.

Consequences management

57. Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

Waste management

58. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA) section 19 of the National Water Act, 1998 (Act No. 36 of 1998) (NWA) and sections 16(1)(c)&(d) and 26(1)(b) of the National Environmental Management Waste Act, 2008 (Act No. 59 of 2008) (NEMWA).
59. The municipality's operational activities at its waste disposal sites and waste water treatment facilities contravened or failed to comply with the requirements of a waste management permit or license and the regulatory provisions in terms of section 67(1)(f)&(h) of the NEMWA and section 29(4) of the ECA in instances where such were issued.

Internal control

60. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

61. Management did not exercise appropriate oversight over financial and performance reporting and related internal controls, while decisive actions to address risks relating to the achievement of complete and accurate financial and performance reporting was not taken.

Financial and performance management

62. Management did not implement effective controls to ensure that information presented in the financial statements is reliable before submission for audit. Regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information must be prepared. Further, management failed to review and monitor compliance with applicable laws and regulation.

Governance

63. Management did not ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively. In addition management failed to establish an audit committee.

OTHER REPORTS

Investigations

64. An investigation was prompted by the municipal manager for transactions that were processed fraudulently by unknown persons from the municipal bank account. A case was opened with the South African Police Service. The investigation was still on-going at the reporting date.
65. A complaint was submitted by the community to the public protector. The issue pertains to several complaints in that municipal area. The investigation was still on-going at the reporting date.



66. An investigation was prompted by the municipal manager undertaken by an independent firm from the prior financial year, on the alleged irregular sale of property to an external party without following the correct disposal processes, has been concluded and reported to the South African Police Service.

Auditor General

Rustenburg

30 November 2013



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